

**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PENDLETON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Pendleton County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$201,957 from the beginning of the year, resulting in a cash surplus of \$3,632,415 as of June 30, 2002.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$1,655,000. Future collections of \$1,485,680 are needed over the next 12 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$93,000 as of June 30, 2002. Future principal and interest payments of \$144,279 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Henry W. Bertram, Pendleton County Judge/Executive

Members of the Pendleton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Pendleton County, Kentucky, as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Pendleton County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Pendleton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions as of June 30, 2002 of Pendleton County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Henry W. Bertram, Pendleton County Judge/Executive
Members of the Pendleton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 31, 2003 on our consideration of Pendleton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Pendleton County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 31, 2003

PENDLETON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Henry W. Bertram	County Judge/Executive
Jeff Dicken	Magistrate
David Dunaway	Magistrate
Lee Roy Faulkner	Magistrate
William L. Klaber	Magistrate
Anthony Messmer	Magistrate
Katherine Roseberry	Magistrate
Jack Sumpter	Magistrate
Sandra Wells	Magistrate

Other Elected Officials:

C. Donald Wells	County Attorney
Richard A. Colvin	Jailer
Bonnie S. Monroe	County Clerk
Mike Redden	Circuit Court Clerk
Lark Edward O'Hara	Sheriff
John Steele	Property Valuation Administrator
John Peoples	Coroner

Appointed Personnel:

Kandy Browning	County Treasurer
Vicky King	Finance Officer

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

PENDLETON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	Governmental Fund Types			Proprietary Fund Type
	General	Special Revenue	Debt Service	Enterprise
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 2,513,771	\$ 236,159	\$ 612,205	\$ 2,807
Investments			280,000	
Total Assets	<u>\$ 2,513,771</u>	<u>\$ 236,159</u>	<u>\$ 892,205</u>	<u>\$ 2,807</u>
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:	\$	\$	\$	\$
Capital Lease	93,000			
Bond Payments			762,795	
Total Other Resources	<u>\$ 93,000</u>	<u>\$ 0</u>	<u>\$ 762,795</u>	<u>\$ 0</u>
Total Assets and Other Resources	<u><u>\$ 2,606,771</u></u>	<u><u>\$ 236,159</u></u>	<u><u>\$ 1,655,000</u></u>	<u><u>\$ 2,807</u></u>

PENDLETON COUNTY

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Totals
(Memorandum Only)

\$ 3,364,942
280,000

\$ 3,644,942

\$

93,000
762,795

\$ 855,795

\$ 4,500,737

ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

	General	Special Revenue	Debt Service	Enterprise
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Payroll Revolving Account	\$ 6,087	\$	\$	\$
Payroll Tax Account	6,440			
Capital Lease (Note 4)	93,000			
Bonds:				
Bonds Not Matured (Note 5)			1,655,000	
Total Liabilities	<u>\$ 105,527</u>	<u>\$ 0</u>	<u>\$ 1,655,000</u>	<u>\$ 0</u>
<u>Equity</u>				
Retained Earnings:				
Restricted	\$	\$	\$	\$ 2,807
Fund Balances:				
Reserved		236,159		
Unreserved	<u>2,501,244</u>			
Total Equity	<u>\$ 2,501,244</u>	<u>\$ 236,159</u>	<u>\$ 0</u>	<u>\$ 2,807</u>
Total Liabilities and Equity	<u><u>\$ 2,606,771</u></u>	<u><u>\$ 236,159</u></u>	<u><u>\$ 1,655,000</u></u>	<u><u>\$ 2,807</u></u>

PENDLETON COUNTY

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS

June 30, 2002

(Continued)

(Memorandum Only)

\$ 6,087
6,440
93,000

1,655,000

\$ 1,760,527

\$ 2,807

236,159

2,501,244

\$ 2,740,210

\$ 4,500,737

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

PENDLETON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 5,068,262	\$ 1,929,812	\$ 1,143,643	\$ 79,126
Receipts - Jail Canteen	43			
Other Financing Sources:				
Transfers In	755,062	155,087		290,000
Total Cash Receipts	<u>\$ 5,823,367</u>	<u>\$ 2,084,899</u>	<u>\$ 1,143,643</u>	<u>\$ 369,126</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 4,386,390	\$ 1,299,153	\$ 958,486	\$ 375,378
Other Financing Uses:				
Transfers Out	755,062	361,613	70,000	
Bonds:				
Principal Paid	95,000			
Interest Paid	102,958			
Trustee Fee	3,000			
Capital Lease Principal Paid	279,000	4,000		12,297
Total Cash Disbursements	<u>\$ 5,621,410</u>	<u>\$ 1,664,766</u>	<u>\$ 1,028,486</u>	<u>\$ 387,675</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 201,957	\$ 420,133	\$ 115,157	\$ (18,549)
Cash Balance - July 1, 2001	3,430,458	471,621	483,892	46,229
Cash Balance - June 30, 2002	<u>\$ 3,632,415</u>	<u>\$ 891,754</u>	<u>\$ 599,049</u>	<u>\$ 27,680</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

PENDLETON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

General Fund Type	Special Revenue Fund Type				
Local Government Economic Assistance Fund	Community Development Block Grant Fund	Ambulance Fund	JAIBG Fund	Flood Fund	E-911 Fund
\$ 585,930	\$ 580,983	\$ 184,628	\$ 8,572	\$ 120	\$ 238,996
	29	103,000	4,679		
\$ 585,930	\$ 581,012	\$ 287,628	\$ 13,251	\$ 120	\$ 238,996
\$ 252,661	\$ 581,011	\$ 308,028	\$ 11,863	\$	\$ 321,824
306,974	1,388			15,087	
262,703					
\$ 822,338	\$ 582,399	\$ 308,028	\$ 11,863	\$ 15,087	\$ 321,824
\$ (236,408)	\$ (1,387)	\$ (20,400)	\$ 1,388	\$ (14,967)	\$ (82,828)
1,219,169	1,388	42,712		14,967	139,161
\$ 982,761	\$ 1	\$ 22,312	\$ 1,388	\$ 0	\$ 56,333

The accompanying notes are an integral part of the financial statements.

PENDLETON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

	<u>Special Revenue Fund Type</u>		<u>Debt Service Fund Type</u>	<u>Enterprise Fund Type</u>
	HUD Fund	Mental Health/ Mental Retardation Tax Fund	Public Properties Corporation Fund	Jail Canteen Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 204,181	\$ 83,057	\$ 29,214	\$
Receipts - Jail Canteen				43
Other Financing Sources:				
Transfers In	1,584		200,683	
Total Cash Receipts	<u>\$ 205,765</u>	<u>\$ 83,057</u>	<u>\$ 229,897</u>	<u>\$ 43</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 205,765	\$ 72,221	\$	\$
Other Financing Uses:				
Transfers Out				
Bonds:				
Principal Paid			95,000	
Interest Paid			102,958	
Trustee Fee			3,000	
Capital Lease Principal Paid				
Total Cash Disbursements	<u>\$ 205,765</u>	<u>\$ 72,221</u>	<u>\$ 200,958</u>	<u>\$ 0</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$	\$ 10,836	\$ 28,939	\$ 43
Cash Balance - July 1, 2001		145,289	863,266	2,764
Cash Balance - June 30, 2002	<u>\$ 0</u>	<u>\$ 156,125</u>	<u>\$ 892,205</u>	<u>\$ 2,807</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH
FLows-PROPRIETARY FUND TYPE

PENDLETON COUNTY
STATEMENT OF CASH
FLOWS-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Funds</u> <u>Jail Canteen</u>
Cash Flows From Operating Activities:	
Interest Received on Bank Accounts	<u>\$ 43</u>
Net Cash Provided By Operating Activities	<u>\$ 43</u>
Net Increase in Cash	\$ 43
Cash and Cash Equivalents - Beginning	<u>2,764</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 2,807</u></u>
Reconciliation of Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Operating Income	<u>\$ 43</u>
Net Cash Provided by Operating Activities	<u><u>\$ 43</u></u>

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Pendleton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Pendleton County Public Properties Corporation as part of the reporting entity.

The Pendleton County Public Properties Corporation is established for the purpose of providing long-term financing for approved projects. The Pendleton County Fiscal Court is financially accountable for the component unit; therefore, management must include the component unit as part of the reporting entity and its financial activity is blended with the Fiscal Court.

Additional - Pendleton County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Pendleton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Pendleton County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Pendleton County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Pendleton County Special Revenue Fund Type includes the following county funds: Community Development Block Grant Fund, Ambulance Fund, JAIBG Fund, Flood Fund, E-911 Fund, HUD Fund, and the Mental Health/Mental Retardation Tax Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Pendleton County Enterprise Fund Type includes the jail canteen account, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. The Pendleton County Detention Center closed on October 1, 2000, and remains closed, until a final decision is made on whether to build a new jail, renovate the present jail, or to close the jail permanently. The balance was transferred to an interest bearing account until a final decision is made. No profit expenditures were made during fiscal year ending June 30, 2002.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Pendleton County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Cash Equivalents, and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit. For the purpose of the statement of cash flows, the county considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Pendleton County Fiscal Court: Pendleton Water District, East Pendleton Water District, Airport Board, Conservation District, and Library.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, the Parks and Recreation Agency is a joint venture among Pendleton County, the City of Falmouth, the City of Butler, and the Pendleton County School. The Planning Commission is a joint venture among Pendleton County, the City of Falmouth, and the City of Butler.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 3. Deposits and Investments (Continued)

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category			Carrying Amount	Market Value
	1	2	3		
Federal Farm Cr Bks Cons	\$ 280,000	\$	\$	\$ 280,000	\$ 280,017
Totals	<u>\$ 280,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 280,000</u>	<u>\$ 280,017</u>

Note 4. Water District Capital Lease-Purchase Agreement

On April 3, 1997, Pendleton County entered into a twenty-year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) for the financing and purchase of a 3,700 square foot commercial and office building and land for the Pendleton County Water District. Interest is paid on a monthly basis, and a principal payment is made annually until termination of the lease in fiscal year ending June 30, 2017, as shown in the following table.

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 5,824	\$ 4,000
2004	5,569	4,000
2005	5,287	5,000
2006	4,968	5,000
2007	4,649	5,000
2008-2012	17,949	30,000
2013-2017	<u>7,033</u>	<u>40,000</u>
Totals	<u>\$ 51,279</u>	<u>\$ 93,000</u>

The Pendleton County Fiscal Court subsequently entered into a sublease agreement with the Pendleton County Water District for the building and land. As of fiscal year end, the Water District was in substantial compliance with the terms of the sublease agreement.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Bonds Outstanding

The Pendleton County Public Properties Corporation issued Certificates of Participation Series 1993, dated January 1, 1994, in the amount of \$1,930,000. Principal payments are due February 1 of each year through February 1, 2014. Interest on the Certificates of Participation varies from 3.25% to 6.25%, and is payable each February 1, and August 1. The following table shows future bond payment requirements.

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 98,112	\$ 100,000
2004	92,912	105,000
2005	87,347	110,000
2006	81,353	120,000
2007	74,693	125,000
2008-2012	254,405	735,000
2013-2014	34,063	360,000
	<u>\$ 722,885</u>	<u>\$ 1,655,000</u>

Note 6. Insurance

For the fiscal year ended June 30, 2002, Pendleton County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

PENDLETON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,516,637	\$ 1,929,812	\$ 413,175
Road and Bridge Fund	886,870	1,143,643	256,773
Jail Fund	418,465	79,126	(339,339)
Local Government Economic Assistance Fund	381,910	585,930	204,020
<u>Special Revenue Fund Type</u>			
Community Development Block Grant Fund	879,000	580,983	(298,017)
Ambulance Fund	318,645	184,628	(134,017)
JAIBG Fund	12,010	8,572	(3,438)
Flood Fund		120	120
E-911 Fund	202,500	238,996	36,496
HUD Fund	241,465	204,181	(37,284)
Mental Health/Mental Retardation Tax Fund	79,250	83,057	3,807
Totals	<u>\$ 4,936,752</u>	<u>\$ 5,039,048</u>	<u>\$ 102,296</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 4,936,752
Add: Budgeted Prior Year Surplus			2,530,388
Less: Other Financing Uses			<u>(479,683)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 6,987,457</u>

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SCHEDULE OF OPERATING REVENUE

PENDLETON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	<u>GOVERNMENTAL FUND TYPES</u>			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 987,347	\$ 730,722	\$ 256,625	\$
Excess Fees	64,767	64,767		
Licenses and Permits	850,016	5,196	844,820	
Intergovernmental Revenues	2,872,440	2,688,429	184,011	
Charges for Services	127,837	121,526	6,311	
Miscellaneous Revenues	58,168	58,168		
Interest Earned	107,687	69,703	8,770	29,214
Total Operating Revenue	<u>\$ 5,068,262</u>	<u>\$ 3,738,511</u>	<u>\$ 1,300,537</u>	<u>\$ 29,214</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

PENDLETON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 511,165	\$ 407,921	\$ 103,244
Protection to Persons and Property	550,636	447,971	102,665
General Health and Sanitation	721,480	332,247	389,233
Social Services	260,500	257,500	3,000
Recreation and Culture	34,414	29,246	5,168
Roads	1,502,629	934,523	568,106
Airports	5,000	5,000	
Debt Service	20,273	11,529	8,744
Capital Projects	87,700	72,623	15,077
Administration	1,250,402	387,118	863,284
Total Operating Budget - General Fund Type	\$ 4,944,199	\$ 2,885,678	\$ 2,058,521
Other Financing Uses:			
Transfers to Public Property Corporation Fund	200,683	200,683	
Capital Lease Agreement- Principal on Lease	279,000	279,000	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 5,423,882</u>	<u>\$ 3,365,361</u>	<u>\$ 2,058,521</u>

PENDLETON COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 21,033	\$ 21,033	\$
Protection to Persons and Property	658,875	601,752	57,123
General Health and Sanitation	1,085,750	653,232	432,518
Social Services	11,556	11,030	526
Capital Projects	183,125	154,644	28,481
Administration	82,919	59,021	23,898
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 2,043,258</u>	<u>\$ 1,500,712</u>	<u>\$ 542,546</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Henry W. Bertram, Pendleton County Judge/Executive
Members of the Pendleton County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Pendleton County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated July 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Pendleton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pendleton County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 31, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Henry W. Bertram, Pendleton County Judge/Executive
Members of the Pendleton County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Pendleton County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Pendleton County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pendleton County's management. Our responsibility is to express an opinion on Pendleton County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pendleton County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pendleton County's compliance with those requirements.

In our opinion, Pendleton County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Pendleton County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pendleton County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
July 31, 2003

FINDINGS AND QUESTIONED COSTS

PENDLETON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Pendleton County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Pendleton County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Pendleton County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Pendleton County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant - East Pendleton Water Main Extensions
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pendleton County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

PENDLETON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Direct Program:		
HUD Disaster Recovery Initiative (CFDA #83.516)	B-97-NU-21-0005	\$ 205,765
Passed-Through State Department for Local Government:		
Community Development Block Grants- East Pendleton Water Main Extensions (CFDA #14.228)	Not Available	<u>581,011</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 786,776</u>
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
Youth Community Service Work Program - Juvenile Accountability Incentive Block Grant (CFDA #16.523)	2000-JB-VX-0021(207)	\$ 3,272
Youth Community Service Work Program - Juvenile Accountability Incentive Block Grant (CFDA #16.523)	2001-JB-BX-0021(204)	<u>8,591</u>
Total U.S. Department of Justice		<u>\$ 11,863</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 798,639</u></u>

PENDLETON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis of accounting.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

Note 3 - The federal expenditures for Community Development Block Grant - East Pendleton Water Main Extensions include grants to subrecipients as follows:

<u>Subrecipient</u>	<u>Pass-through Grant Amount</u>
East Pendleton Water District	\$513,955
Pendleton County Water District	\$ 67,026

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM


PENDLETON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

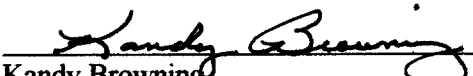
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
PENDLETON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Pendleton County Fiscal Court hereby certifies that assistance received from Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Henry W. Bertram
County Judge/Executive



Kandy Browning
County Treasurer

